



July 2015

SECURITY ASSISTANCE

Taxpayer Funds Spent on Equipment That Was Never Shipped to Yemen

Report Documentation Page				Form Approved OMB No. 0704-0188	
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1. REPORT DATE 15 JUL 2015		2. REPORT TYPE		3. DATES COVERED 00-00-2015 to 00-00-2015	
4. TITLE AND SUBTITLE Security Assistance: Taxpayer Funds Spent on Equipment That Was Never Shipped to Yemen				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) U.S. Government Accountability Office, 441 G Street NW, Washington, DC, 20548				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 31	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			



441 G St. N.W.
Washington, DC 20548

July 15, 2015

Congressional Committees

Security Assistance: Taxpayer Funds Spent on Equipment That Was Never Shipped to Yemen

Yemen has been an important partner in the fight against al Qaeda in the Arabian Peninsula (AQAP), a terrorist group based in Yemen that continues to plot against U.S. citizens and interests. To assist in countering the AQAP threat, the Department of State (State) committed \$48 million of the \$108 million allocated in Foreign Military Financing (FMF) funding from fiscal year 2007 through fiscal year 2014 to Yemen.¹

Senate Report 133-176, accompanying S.2410, Carl Levin National Defense Authorization Act for Fiscal Year 2015, included a provision for us to review U.S. security assistance to Yemen. During the course of our review on the timeliness and maintenance of security assistance to Yemen in response to this provision, we became aware of shipments of U.S.-funded security assistance equipment that were transferred to Yemen but remain in a U.S. warehouse.² This report describes (1) the status of U.S. FMF-funded equipment for Yemen that remains in a private warehouse in Virginia and (2) the steps the Department of Defense (DOD) has taken to resolve the final disposition of the equipment.

To prepare this report, we interviewed U.S. officials from DOD, State, and the U.S. embassy in Yemen, and a representative from Yemen's most recent freight forwarder regarding the status of the unshipped FMF equipment, the discussions between Yemen and its freight forwarders over fees and documentation, and U.S. government efforts to achieve final disposition.³

We conducted this performance audit from May 2015 to July 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Summary

Since 2007, 200 parcels of equipment Yemen purchased using U.S. government-funded FMF grants remain unshipped in a private warehouse in Virginia rather than meeting the intended goal of building and maintaining Yemeni security forces' capability to counter threats such as

¹According to State officials, although State directs the FMF program, the Arms Export Control Act gives the Department of Defense (DOD) responsibility for procurement and delivery of FMF assistance.

²See our report, *Yemen: DOD Should Improve Accuracy of Its Data on Congressional Clearance of Projects as It Reevaluates Counterterrorism Assistance*, [GAO-15-493](#) (Washington, D.C.: Apr. 28, 2015).

³A freight forwarder is a commercial company contracted to ship equipment from the United States to a partner country.

AQAP. As permitted under the FMF program, Yemen chose to use contract commercial freight forwarders to arrange for shipment of these articles to Yemen.⁴ The government of Yemen took ownership of the equipment upon delivery to its contracted freight forwarder.

Some of the equipment arrived in several shipments at the warehouse of Yemen's freight forwarder at that time, which Yemen had originally contracted to ship the equipment. Starting in 2007, Yemen was in arrears with its freight forwarder. In April 2008, the contract between the government of Yemen and this freight forwarder ended. In August 2008, the equipment was transferred to the Virginia warehouse of another freight forwarder contracted by the government of Yemen. From 2008 to 2010, Yemen made some late payments to this freight forwarder. According to DOD officials, Yemen paid \$117,000 in arrears, storage, and shipment fees in 2010. In 2010 and 2011 equipment continued to accumulate at the freight forwarder's warehouse as political unrest prevented shipments to Yemen. DOD convinced the freight forwarder to waive storage fees accumulated during this period. Once holds on shipments were lifted in 2012, disagreements between Yemen and its freight forwarder resumed. According to DOD officials, Yemen's contract with this freight forwarder expired in 2011 although the freight forwarder continued to receive U.S.-funded equipment intended for Yemen. In fiscal year 2012, Yemen began paying the U.S. military to ship newly funded FMF equipment and no longer used its own commercial freight forwarder.

The 200 parcels of equipment intended for Yemen that remain in Virginia include some items that have expired while in storage and some that require special disposal. For example, the parcels include hazardous cargo that requires special disposal and low-grade explosives for airplane ejection seats that require special storage considerations. In addition, medical supplies have expired and batteries have corroded. Furthermore, night vision goggles at the warehouse require new export authorization forms or third-party transfer permission to be shipped. DOD determined the original value for some of the items, such as nearly \$600,000 for night vision goggles, but has not determined the value of the rest of the equipment. DOD officials reported that this was because of a lack of time, resources and ready access to the equipment owned by the government of Yemen.

According to DOD officials, DOD faces limitations in accessing the equipment and mediating a resolution to the situation because it involves a private contract between the government of Yemen and its freight forwarder. However, although Yemen has legal custody of the equipment, DOD has taken some steps to help address the shipment challenges.⁵ According to DOD officials, they pressured Yemen to pay the freight forwarders the arrears. Yemen has paid some, but not all, of its arrears to its freight forwarders. In 2012, DOD again worked with Yemen and its freight forwarder to try to reduce the remaining fees and have some of the equipment incrementally shipped by the freight forwarder. However, the freight forwarder acknowledged it has not received storage and handling payments, and noted that it has also not received the necessary export licenses and shipping instructions. According to DOD officials, since 2012, Yemen has used the U.S. military transportation to ship FMF equipment to prevent similar situations involving unshipped equipment.

DOD obtained permission from Yemen and its most recent freight forwarder to conduct inventories of the equipment in 2012 and 2015 to help identify costs and create plans for

⁴Partner countries may ship FMF equipment using either commercial freight forwarders or U.S. military transportation.

⁵According to State officials, they were unaware that this equipment had not shipped until GAO began its review.

disposing of or shipping the equipment to Yemen. After completing the February 2015 inventory, the Office of Military Cooperation worked with the freight forwarder and Yemen, resulting in the freight forwarder agreeing to release the equipment for \$8,000 if Yemen paid by May 1, 2015. DOD offered to reimburse the Yemeni government for this payment using funds previously earmarked for Yemen, if the embassy of Yemen paid the fee. The embassy of Yemen did not pay by the deadline and Yemeni officials indicated that they did not have the funds available to pay due to the ongoing crisis in their country. The freight forwarder reported that it had moved the equipment to another warehouse in July 2015.

DOD proposed that it would pick up the equipment and begin final disposition before moving it to another warehouse, or have Yemen pick it up and use Yemeni funds to ship the equipment or arrange with DOD to dispose of it. According to DOD officials, Yemen is likely to use U.S. FMF funds if, as expected, DOD is involved in the final disposition. According to State officials, any use of FMF funds to address the situation would require State approval and possibly consultation with Congress.

Additional information is included in the enclosure. We are not making any recommendations in this report.

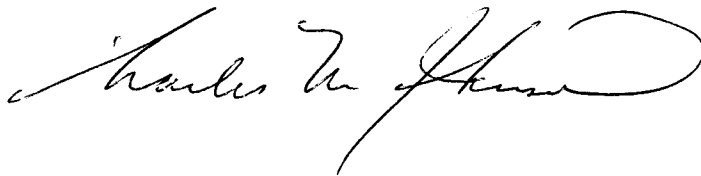
Agency Comments

We provided a draft of this report for advance review and comment to DOD, State, the embassy of the Republic of Yemen, and Yemen's most recent freight forwarder. They all provided technical comments, which we have incorporated as appropriate.

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We are sending copies of this report to the appropriate congressional committees, the Secretaries of Defense and State, the Ambassador of the Republic of Yemen to the United States, and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (202) 512-7331 or johnsoncm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are Jason Bair (Assistant Director), Brian Hackney (Analyst-in-Charge), Katherine Forsyth, Lynn Cothorn, Martin De Alteriis, and Mark Dowling.



Charles Michael Johnson, Jr.
Director, International Affairs and Trade

Enclosure

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Committee on Appropriations
House of Representatives



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Introduction

- Yemen has been an important partner in the fight against al Qaeda in the Arabian Peninsula (AQAP), a terrorist group based in Yemen that continues to plot against U.S. citizens and interests.
- To assist in countering the AQAP threat, the Department of State (State) allocated \$108 million in Foreign Military Financing (FMF) funding from fiscal year 2007 through fiscal year 2014 to Yemen.¹
- During the course of our review of the timeliness of deliveries of U.S. assistance to Yemen,² we found that some shipments of FMF equipment remain in the United States.

¹Fiscal year 2015 was still in progress at the time of our review. According to State officials, although State directs the FMF program, the Arms Export Control Act gives DOD responsibility for procurement and delivery of FMF assistance.

²See GAO, *Yemen: DOD Should Improve Accuracy of Its Data on Congressional Clearance of Projects as It Reevaluates Counterterrorism Assistance*, GAO-15-493 (Washington, D.C.: Apr. 28, 2015).



Objectives

Senate Report 133-176 included a provision for GAO to review U.S. security assistance to Yemen. This briefing describes:

1. The status of U.S. FMF-funded equipment for Yemen that remains in a private warehouse in Virginia.
2. The steps DOD has taken to resolve the final disposition of the equipment.



Background: Overview of the FMF Program

- FMF was established to provide U.S.-funded grants for the acquisition of U.S. defense equipment, services, and training.
- State funds and manages the FMF program.
- DOD is the implementing agency and is responsible for, among other things, acquisition and transfer of equipment.
- Partner countries work with DOD and State to use FMF assistance to purchase items.
- Partner countries assume responsibility for arranging shipment of FMF-funded items once custody is transferred to them.



Background: The United States Has Committed \$48 Million in FMF to Yemen since Fiscal Year 2007

- The United States has committed \$48 million of the \$108 million allocated to FMF for Yemen from fiscal years 2007 through 2014.
- According to DOD and State officials, the majority of FMF funding allocations for Yemen were planned to support previously furnished equipment, including some provided through the Section 1206 and 1207(n) programs.
- State temporarily suspended Yemen's FMF program in January 2015 because of Yemen's unstable situation.

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Objective 1

Since Fiscal Year 2007, 200 Parcels of FMF
Equipment Remain Unshipped and in a Private Warehouse



Yemen Has Taken Custody of the Equipment and Contracted a Freight Forwarder for Shipment

- Yemen has taken custody of equipment in the United States and is responsible for arranging shipment.
- Yemen can choose to ship the equipment either by paying the U.S. military to ship it or by contracting a commercial freight forwarder.
- According to DOD officials, Yemen chose to use freight forwarders until fiscal year 2012.



Some FMF Equipment Remains Unshipped Because of Unpaid Fees and Missing Documentation

- Yemen hired a freight forwarder—Panalpina—to ship some FMF equipment from the United States to Yemen.
- Yemen took ownership of the equipment once it was sent to Panalpina's facilities in the United States.
- Yemen was in arrears with Panalpina starting in 2007. Yemen's contract with Panalpina ended in April 2008, and it paid its arrears in June 2008.
- In August 2008, Yemen contracted a new freight forwarder, DHL Global Forwarding (DGF), and the equipment that had arrived at Panalpina from April through August of 2008 was moved to a DGF warehouse in Virginia.



Some FMF Equipment Remains Unshipped Because of Unpaid Fees and Missing Documentation

- From 2008 to 2010, Yemen did not pay or made late payments to DGF and DGF officials said they did not have proper export documentation.
- In 2010, according to DOD, Yemen paid \$117,000 in arrears, storage, and shipment to DGF.
- In 2010 and 2011, equipment continued to accumulate in DGF's warehouse while political unrest prevented shipments to Yemen.
- In 2011, Yemen chose not to renew its contract with DGF although DGF continued to receive FMF-funded equipment.
- In fiscal year 2012, Yemen began paying the U.S. military to ship new FMF equipment.



Since Fiscal Year 2007, 200 Parcels of FMF Equipment Remain Unshipped

- Two hundred parcels of FMF equipment remain in the United States and have never achieved their purpose of supporting the Yemeni security forces.
- DOD has not determined the value of the equipment. Officials reported that this was because of a lack of time, resources and access to the equipment and because they felt it was not practical to expend resources to resolve a private contract dispute.
- Some of the equipment has degraded or expired over time.
- Some of the equipment is hazardous, requiring special disposal.



Unshipped FMF Equipment

Figure 1: Unshipped Equipment



Source: Department of Defense.

- 200 parcels of FMF equipment
- Could fit into one 40-foot shipping container, according to DOD



Unshipped FMF Equipment: Night Vision Goggles

Figure 2: Night Vision Goggles



Source: Department of Defense.

- Over 150 night vision goggles that originally cost about \$591,000
- Requires third party transfer or a new form authorizing export



Unshipped FMF Equipment: Low-Grade Explosives

Figure 3: Low-Grade Explosives



Source: Department of Defense.

- Low-grade explosives for aircraft ejection seats
- Minimal blast but present a fire hazard and require special storage



Unshipped FMF Equipment: Hazardous Cargo

- Some large batteries are hazardous
- Further inspection is required to determine whether they are usable
- Some liquid solvents are also hazardous
- Further inspection is required and they could require special disposal

Figure 4: Large Batteries



Source: Department of Defense.

Figure 5: Liquid Solvents



Source: Department of Defense.



Unshipped FMF Equipment: Medical Supplies

- First aid kits and holders
- Syringe and needle for administering intravenous drugs

Figure 6: First Aid Kits



Source: Department of Defense.

Figure 7: Medical Syringe



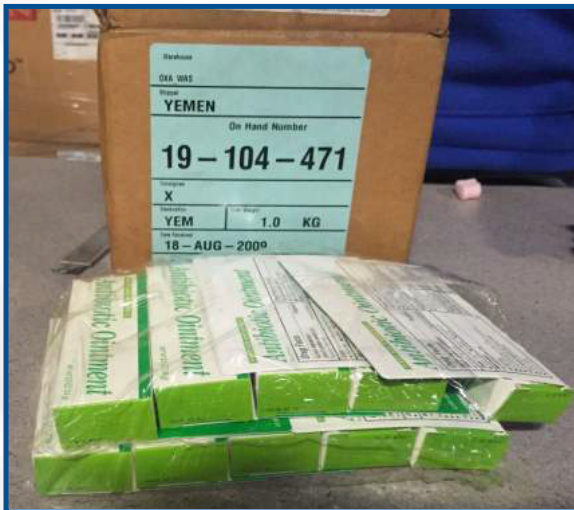
Source: Department of Defense.



Unshipped FMF Equipment: Expired Items

- Expired medical items
- No special disposal required
- Corroded, unusable batteries
- Likely to require special disposal methods

Figure 8: Medical Ointments



Source: Department of Defense.

Figure 9: Corroded Batteries



Source: Department of Defense.



Objective 2

DOD Has Taken Some Steps to Resolve the Final Disposition of the FMF Equipment



DOD Has Taken Steps to Address Shipment Challenges

- According to DOD officials, DOD faces limitations in accessing the equipment and mediating a resolution to the situation because it involves a private contract between the government of Yemen and its freight forwarder.
- However, although custody of the equipment has been transferred to Yemen, DOD officials have been working to mitigate the challenges preventing shipment since becoming aware of the problem in 2008.
- State officials said that they were unaware that this equipment had not shipped until GAO began its review and have no role now that custody of the equipment has been transferred to Yemen.



DOD Has Taken Steps to Resolve Shipment Challenges

- According to DOD officials, DOD pressured Yemen to pay its arrears to its freight forwarders. Yemen paid some, but not all, arrears to Panalpina in 2008 and DGF in 2010.
- In 2012, DOD again worked with Yemen and DGF to reduce the remaining fees and incrementally ship some of the equipment. However, DGF acknowledged it did not receive storage and handling payments, and necessary documents. DGF has yet to receive full payment, necessary shipping instructions, and export licenses.
- Since 2012, Yemen has used U.S. military transportation to ship equipment in order to avoid similar shipment problems.



DOD Conducted Inventories in November 2012 and February 2015

- DOD conducted inventories in November 2012 and February 2015 with the permission of the Yemeni embassy and DGF.
- During the most recent inventory, DOD assessed the type, quantity, condition, and sensitivity of the equipment housed by DGF.
- In March 2015, officials from the Office of Military Cooperation (OMC) presented their compiled findings from the inventory to the Defense Security Cooperation Agency.



DOD Has Attempted to Resolve the Equipment's Final Disposition

- After completing the February 2015 inventory, OMC worked with DGF and Yemen; DGF agreed to release the equipment if Yemen paid \$8,000 by May 1, 2015.
- DOD offered to reimburse the Yemeni government for this \$8,000 payment using FMF country funds previously earmarked for Yemen, if the embassy of Yemen paid the fee.
- The Yemeni embassy did not pay by the deadline. The embassy of Yemen indicated they did not have the funds available due to the ongoing crisis in their country.



DOD Will Likely Be Involved in Final Disposition and Require FMF Funds

- In July 2015, without payment or proper export documentation, DGF reported that it had moved the equipment to another warehouse.
- DOD proposed these options for final disposition of the equipment:
 - DOD could pick up the equipment and begin final disposition.
 - Yemen could pick up the equipment and arrange final disposition with DOD or use Yemeni funds to ship the equipment.
- According to DOD officials, if, as expected, DOD is involved in the final disposition for either option, Yemen is likely to use U.S.-provided FMF funds. If so, according to State officials, it would require State approval and possibly consultation with Congress.



Scope and Methodology

- To address our objectives, we reviewed and analyzed DOD and State documents and key congressional legislation relevant to FMF for Yemen.
- We interviewed U.S. officials from DOD, State, and the U.S. embassy in Yemen and a representative from DGF regarding the status of the unshipped FMF equipment, the discussions between Yemen and its freight forwarders over fees and documentation, and U.S. government efforts to achieve final disposition.

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